

ARTICLES



Iraq

How to "privatize"
a country
and make millions
by TIM SHORROCK

Martin Hoffmann, a former Secretary of the Army and a key adviser to Defense Secretary Donald Rumsfeld, is known in Washington as the man who urged Rumsfeld, an old friend from Princeton, to hire executives from Enron and other corporations to lead the armed services. Recently, he and Michael Bleyzer, a former Exxon executive who runs a private equity firm that invests heavily in Bleyzer's native Ukraine, have been briefing senior US officials, including Rumsfeld himself, on their ideas for the rapid privatization of Iraq's state-run industries.

Hoffmann and Bleyzer want the Bush Administration to allow the private sector to supplant the US Agency for International Development (AID) as the driving force behind the reconstruction of postwar Iraq. They consult frequently with Robert "Bud" McFarlane, President Reagan's National Security Adviser, who runs a company that invests in energy projects in Russia and Eastern Europe. McFarlane and Bleyzer co-wrote a recent commentary in the *Wall Street Journal* called "Taking Iraq Private." "We're all in there trying to figure out a different way to get effective American economic development assistance going over there, and AID is just not up to it," said Hoffmann, who is also chairman of the board of Mitretek Systems, a Virginia company that does technical research for the Defense Department and other government agencies. He said Rumsfeld "is very knowledgeable about this kind of development assistance" and once accompanied him on a trip to Ukraine to conduct a seminar on privatization.

"What I'd like to see over the next ten years is to really rebuild Iraq, and that means a market economy," said Bleyzer, adding that Iraq would have a "much better business environment if BP or Exxon-Mobil or Shell could invest. We want to set up a business environment where global companies like Coca-Cola and McDonald's could come in and create a diversified economy not dependent on oil." McFarlane, who said he has "no formal ties" with Bleyzer's fund, was enthusiastic about the work of his colleagues. "I hope their concepts are being digested inside the Administration," he said.

Apparently they are. On May 27 Rumsfeld pledged in an opinion column in the *Journal* that Bush is committed to making decisions in Iraq that "favor market systems" and "encourage moves to privatize state-owned enterprises."

The relationships between Rumsfeld and the three men are a microcosm of what is happening in Washington as US corporations, entrepreneurs and former officials scramble to take advantage of the occupation of Iraq—now legalized by the UN Security Council's May 22 vote to lift sanctions—in order to win a piece of the market and press their ideas for transforming the Iraqi economy. Already, Bechtel, the San Francisco engineering powerhouse, was hired by AID as the prime contractor to rebuild Iraq's infrastructure in a project worth at least \$680 million. And the Kellogg Brown & Root unit of Halliburton, the oil-services company once headed by Vice President Dick Cheney, took control of

America's Role In The World



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Iraq's oilfields under a controversial, no-bid contract from the Army Corps of Engineers. In May the Pentagon awarded MCI a contract of about \$45 million to build a wireless network in Iraq.

Meanwhile, behind closed doors in the Pentagon and State Department and on Washington's K Street corridor, executives, bankers, trade lawyers and consultants are using their influence to create opportunities for future profits in Iraq. Those groups, and the relationships they have developed with Iraqi exiles and Washington insiders, underscore the politicized nature of the US rebuilding effort and the hopes of many officials that Iraq will become an engine of growth, not only for the region but for US corporations searching for new markets and investment sites.

Rumsfeld's roadmap for Iraq reflects the aggressive foreign policy championed by neoconservative hawks such as Richard Perle and former CIA Director James Woolsey, both members of Rumsfeld's Defense Policy Board. For more than a decade, they have been part of a group of militant conservatives pushing to invade Iraq and, in Woolsey's words, "change the face of the Middle East." The group includes former officials like McFarlane as well as key figures from the current Administration, including Rumsfeld and his top deputy, Paul Wolfowitz.

"What I think we have won on the battlefield is the right to try to establish consistent policies that are for the benefit of the people of Iraq," Perle said in an April speech at the American Enterprise Institute. "It's not that we are looking for anything for ourselves, but we do have responsibility, a stewardship," not to "turn it [Iraq] over to institutions incapable of seeing this through to a successful conclusion." In an aside, he added that "the last thing the Iraqis need is French statism or German labor practices." Woolsey was equally blunt when he spoke to a May 1 closed-door conference on postwar Iraq co-sponsored by his employer, the consulting firm Booz Allen Hamilton, where he's an officer in the global strategic security unit. "Basically, he said to hell with France, to hell with Germany and to hell with the United Nations; the United States is going to do this alone," an Arab banker recalled. Two other attendees confirmed that account.

Both Woolsey and Perle are involved in businesses that could benefit from the war on terrorism. Woolsey is a principal of Paladin Capital Group, a Washington-based private-equity firm investing in companies that defend against terrorist attacks. Perle has financial stakes in a similar fund known as Trireme Partners and in the Autonomy Corporation, which supplies eavesdropping software to intelligence agencies. Perle was also hired to advise telecom giant Global Crossing and provided security briefings to the investment firm Goldman Sachs.

Those conflicts of interest could cause trouble for the Administration and in Perle's case have already done so, leading him to resign as chair of the Defense Policy Board after revelations of his ties to companies doing business with the Pentagon. "I think they're going to have a problem in resolving the greedy impulses of companies and individuals, and the need for this to be a showcase for the world," said Philip Mattera, the director of the Cor-

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porate Research Project, a nonprofit group that analyzes corporations for unions and community organizations.

Echoes of Vietnam

According to AID administrator Andrew Natsios, the US government will spend no more than \$1.7 billion for Iraq's immediate reconstruction needs. With Iraq's infrastructure a shambles, much of its government ministries and agencies looted, and its gross domestic product estimated by the Treasury Department at somewhere between \$25 billion and \$60 billion a year—less than half of what it was in 1978—many analysts believe the country will need at least \$200 billion more to meet the Bush Administration's goal of creating a functioning market economy. Even if half of that is provided by oil revenues and multilateral institutions like the World Bank, that still leaves a gap of \$100 billion for private investors. "FDI [foreign direct investment] is the answer to all Iraq's problems," said Bleyzer.

There is a kind of missionary fervor among those participating in the effort. "The United States has a moral obligation to make this country work," said Bart Fisher, a Washington trade lawyer who helped found the US-Iraq Business Council last June. Now that sanctions have been lifted and legal avenues are being cleared for foreign investment, Fisher predicts a surge of investment in information technology ("I think IBM would be very interested in getting them online"), oilfield-drilling suppliers, insurance companies and agribusiness, with companies like Schlumberger, American International Group (AIG) and Cargill leading the way. Because of the dilapidated state of Iraq's healthcare system, "you'll see US healthcare and pharmaceutical companies coming in there too." Manufacturing for export is another possibility. "I think it would be great if Toyota went there and built automobiles," said Fisher, who has represented the government of China and Mars Inc., one of the world's largest producers of chocolate.

Hoffmann, a former general counsel for the Pentagon who advised Rumsfeld on the US treatment of Al Qaeda detainees, sees a national security imperative in his proposals to use privatization to keep terrorism at bay. Countries in political chaos, he warned, will remain unstable unless they see immediate benefits from their American benefactors. "One of the ways you achieve security in a country like Afghanistan or Iraq is to start economic development really early, and the people get the idea that you're there," he said. He likened his philosophy to the strategic hamlets built by US forces in South Vietnam to relocate peasants from their villages during the US counterinsurgency campaigns of the 1960s. "That was basic economic development," Hoffmann said. "Once that village got itself arranged so it could see it had a future and there was cash in the economy because of the crops they were raising, they wouldn't let the Vietcong come in and ruin their future."

Gabriel Kolko, a historian who has written extensively about Vietnam and US economic policies during the cold war, called Hoffmann's reference to the strategic hamlets "mind-boggling." "These guys in Washington know how to win wars but know nothing about how a peace is won," he said. The Communist victory in Vietnam, Kolko argued, was largely due to the social chaos caused by US policies, and should serve as a lesson for US officials in their attempt to remake Iraq. In his book *Anatomy of a War*, Kolko described the strategic hamlet as "a concentration camp of sorts,"

where with "sheer brutality," recalcitrant peasants were compelled by South Vietnam's army, sometimes with artillery and aircraft, to seek refuge. But because the hamlets "weren't economically viable," Kolko told me, peasants were forced into the cities, where they were marginalized and forced to work as prostitutes or shoeshine boys. That ultimately caused "a political overload that South Vietnam's leaders couldn't manage," he said. "If the Americans had not mucked around with the social structure, the war might have lasted much longer. The people in the Army didn't have the foggiest notion of what they were doing."

Signing Up to Play

But many companies today seem to believe the opposite about Rumsfeld's military—and are eager to get a first crack at a market under US control. Since the fighting ended, the US-Iraq Business Council has been getting 80–120 calls or e-mails a day expressing interest in investing, said Rubar Sandi, a Kurdish-American investor who came to the United States twenty-eight years ago from Iraq and is the council's chairman.

Sandi has been trying to recruit influential Americans to support the council, including Henry Kissinger (through his global consulting firm, Kissinger said he is "willing to let the council tell him what they're doing, but would certainly not serve" in an advisory position). Recently Sandi made a pitch to the Center for International Private Enterprise, an affiliate of the US Chamber of Commerce that's partially funded by the National Endowment for Democracy, to promote US business practices in developing countries. (Congress created the NED to give money to the chamber, the AFL-CIO and indirectly to the Democratic and Republican parties to support pro-US democratic movements abroad.)

DynCorp International, a military contractor that is organizing law enforcement in Iraq under a contract with the State Department worth at least \$50 million, has subcontracted with Sandi's bank to "provide information on housing and different sorts of infrastructure situations in Iraq," a spokesperson for DynCorp's parent, Computer Sciences Corporation, said. Other companies considering joining, council officials said, are Coca-Cola, AIG and Pfizer, the world's largest pharmaceutical manufacturer. Pfizer has another link to Iraq: A senior executive on leave, Emad Dhia, chairs the Pentagon's Iraqi Reconstruction and Redevelopment Council, a group of Iraqi exiles who are to assume key positions in Iraqi ministries (technically, they are employed by Science Applications International, a San Diego-based military contractor—a sign of how far privatization has already gone).

The Center for Democracy, a Washington political rights group that has monitored elections overseas, is headed by Allen Weinstein, who was instrumental in the founding of the NED. He is the council's political adviser, according to the council's website. "Allen has been helpful with relations with Congress and other broader political issues," said Fisher, who serves on the center's board, along with Kissinger, Senator Richard Lugar and other political figures (through his assistant, Weinstein said he has held discussions with the council but denied any formal connection).

Another major player is Thomas Miner, a Chicago business promoter and chairman emeritus of the Mid-America Committee of the Chicago Council on Foreign Relations, an exclusive group of CEOs from the largest multinationals in the Midwest. He has

signed on to organize a conference in Chicago for corporations hoping to invest in Iraq. Arnold & Porter, a powerful Washington law firm, is hoping to serve as the council's law firm, according to Dennis Sokol, a New England healthcare executive. Sokol, whose company owns a chain of privately run clinics in Russia and Eastern Europe, has been advising the council about companies to approach for membership. An Arnold & Porter spokesperson would neither confirm nor deny the firm's interest in the council.

Privatization as Panacea

Many who advocate a rapid transition to a free-enterprise system see AID, despite the lucrative contracts it has handed out, as an obstacle. Their criticisms reflect the struggle in the Administration between Colin Powell's State Department, which runs AID and in Iraq and Afghanistan is following the traditional path of government-funded development projects, and the Pentagon, which is pressing AID to adopt what Hoffmann calls an "enterprise-driven, market-economy-directed thrust."

That dispute went public in April, when Newt Gingrich, the former Speaker of the House and a close ally of Rumsfeld, derided AID's rebuilding efforts in Afghanistan as an "absolute failure of American entrepreneurial efforts" that must be avoided in Iraq. Although Gingrich's remarks reportedly irritated President Bush, there is no doubt about the Administration's goals. On May 9, for example, Bush proposed the creation of a US/Middle East free-trade area within ten years. "By replacing corruption and self-dealing with free markets and fair laws, the people of the Middle East will grow in prosperity and freedom," he said.

AID spokesperson Ellen Yount said critics like Hoffmann and Gingrich should "reserve judgment" on AID until they see the agency's economic governance contract, which will guide the Administration's program in Iraq. "We think it will very much reflect an understanding and concern for private-sector development," she said. That contract has been put out for bid, and the company widely expected to win is BearingPoint Inc., a consulting company formerly known as KPMG, which contracted with AID for similar projects in Bosnia and Afghanistan. Patrick Bryski, a managing director at BearingPoint, emphasized in a May 5 speech what he sees as needed in Iraq: "We've got to get assets out of the hands of the government and into the hands of the private sector."

That's exactly what the Treasury Department, which has a team in Baghdad assessing Iraq's financial system, is trying to do. "It's very important to get a good system of rule of law and property rights in a way very conducive to foreign investment," John Taylor, Treasury's Under Secretary for International Affairs, explained at the May 1 conference where Woolsey spoke.

The conference, held at the Center for Strategic and International Studies, was another good indication of the corporate interest in Iraq. It was co-sponsored by AIG and Booz Allen and attended by senior executives from at least sixty-seven companies and law firms, including Babcock International Group, BAE Systems North America, Cummins Power Generation, DynCorp, Goldman Sachs, KBR-Halliburton, Stevedoring Services of America (SSA), the law firm White & Case and two of Japan's largest trading companies.

One of the first targets for private development, Taylor said, will be the UN's oil-for-food program, which before the war was

largely run by traders employed by Iraq's central government. "There's got to be large-scale privatization of retail food distribution with the transition," he said. That was of great interest to the transportation companies in the audience, including Menlo Worldwide of California, which is providing logistics services at the port of Umm Qasr and coordinating the US military's efforts to bring in humanitarian aid. Because of the congestion at Iraq's only seaport, Menlo is developing long-term plans to use alternative routes for importing food and other supplies, said a Menlo executive who asked that his name not be used. "We're looking—and this is no secret—at Turkey, Jordan, Kuwait and Bahrain," he said. "Certainly getting in at the ground floor will be a great opportunity."

AID's contract at Umm Qasr with SSA, a Seattle-based port operator, is an example of how US contracts can benefit a company. Under the \$4.8 million contract, SSA is preparing the port to handle cargo from ships and tankers. It won the contract over two experienced foreign rivals, England's P&O and Hong Kong's Hutchison Whampoa. "SSA is playing with the big boys now," said Larry Hansen, president of the Seattle local of the International Longshore and Warehouse Union, which had bitter disputes with SSA over outsourcing and other issues when West Coast shipping companies locked out the ILWU last summer. Bob Waters, SSA's vice president for the Middle East and Asia, said his company, which took control of the port on May 23 from the British Army, has no plans for a long-term presence in Iraq. "That's totally up to AID," he said. But since SSA does little business in the region, its contract for Iraq will "clearly help it establish a presence in the Middle East," said David Olson, a maritime expert at the University of Washington. Umm Qasr "will become a significant transshipment point for goods on Iraq's north-south routes, and SSA will be the main player," he added.

Bechtel said it will not be directly involved in any privatization projects, which have been a major part of its global business for decades. "Bechtel is phasing out most of its activities in this area," said its chief spokesman, Jonathan Marshall. "I don't see any reason to believe Bechtel would be involved in running or operating facilities."

Wild, and Wide Open

Weeks after the end of the war, Iraq remains in chaos, with armed gangs robbing citizens and stripping government agencies—except for the well-guarded oil ministry—of equipment. Bush recently named L. Paul Bremer, a former managing director of Kissinger Associates and an expert in counterterrorism, to take over the Pentagon's Office of Reconstruction and Humanitarian Assistance in Iraq. Bremer has put off the formation of an interim government and told Iraqis that the United States will remain in control for an indefinite period. His financial adviser is Peter McPherson, a former Bank of America executive and a close friend of Cheney who ran AID during the Reagan Administration. On May 26 Bremer used Umm Qasr as a backdrop to declare that Iraq was "open for business" and, following Rumsfeld's lead, said he would like to see the "privatization of key elements" of the economy.

But the Administration's zeal for free markets may clash with Iraqi realities. Iraqis have grown accustomed to the benefits of a state-run economy that employed about 30 percent of Iraq's work

force and provided the population with food rations and low-cost gasoline. Already, international observers are saying that the shock of a sudden shift to a market economy may be difficult for Iraqis to bear, particularly after a harrowing invasion and the subsequent breakdown in civil order. The United States "cannot force an ideological process too much" in Iraq, Ramiro Lopes da Silva, the UN's humanitarian coordinator in Iraq, told the London *Guardian* on May 27. Pointing to the recent US decision to release 400,000 Iraqi soldiers without a re-employment program, the Portuguese diplomat warned of the potential for further instability and "a low-intensity conflict" if Bremer—who also approved layoffs of more than 100,000 civil servants—continues these policies.

Congress is also watching closely. During a contentious Senate Foreign Relations Committee hearing on May 22, lawmakers repeatedly criticized Wolfowitz for the dismal US performance in postwar Iraq. "The planning for peace was much less developed

than the planning for war," said committee chair Lugar, who called the Administration's stabilization and reconstruction efforts "inadequate." Senator Joseph Lieberman and Representative Henry Waxman, both Democrats, are demanding inquiries into the Administration's secretive contracting practices.

But it's going to take more than Congressional oversight to insure that Iraqi citizens—and not Rumsfeld and his business and political cronies—determine Iraq's future. Some US labor groups that opposed the war, for example, are investigating whether SSA, MCI and other US corporations doing business in Iraq are respecting UN-recognized labor rights. Now that the fighting's over, corporations may be having their way. But out of the gloom, a new activist agenda may emerge that combines opposition to Bush's foreign policy with earlier, but still relevant, concerns about the social consequences of corporate-led globalization. Perhaps the battle of Baghdad has just begun. ■

NEW JERSEY: A VEGETABLE PATCH AND SPARE BEDROOM FOR THE BIG CITIES ON EITHER SIDE.

On Mediocrity's Cutting Edge

LUC SANTE



In the 1920s The Nation published a series of articles by prominent writers about their home states. We have commissioned a number of contemporary writers to do the same. This is the third in the series.

—The Editors



LYDD MILLER

flesh. Most arrived at this condition as industry tumbled in the latter half of the past century; earlier they had been hard-edged, unglamorous communities of strivers. Newark, Jersey City, Elizabeth, Bayonne, Paterson, Camden, Trenton. The first has had some intermittent fleeting success in positioning itself as a subsidiary Gotham; the second has become a catch basin for lower-Manhattan overflow. They also retain their share of misery, however, and misery is most of what you find in the other cities, not excepting the

New Jersey, a smallish state with an insistent, almost typographical shape—an ampersand—has for three centuries had the mingled good and bad luck to be the neutral conjunction between New York City and Philadelphia. If it were a country it would be a sort of Belgium, constantly run over by armies surging or retreating from one center of power to the other. Instead it became a domestic colony, employed as vegetable patch, factory lot, depot, dumping ground and eventually spare bedroom for the great cities on either side. Its nickname, "The Garden State," is a nice way of acknowledging this servile condition. It doesn't grow much for the market anymore anyway; agribusiness probably has single-crop spreads in Texas that are bigger. The only two significant rural regions left in the state are the pie-slice of the Appalachian Range in the extreme northwest and the ineffable Pine Barrens in the south, both of them saved from subdivision by their topographical inhospitality. The rest is mostly suburb.

It does have cities, almost all of them beset, aggrieved, half-ruined, embodying the idea of city in the sense of demographic density but not in that of power, prosperity or even pleasures of the

state capital. If the American middle class continues to expand its numbers and stomach, it will eventually find a way of refashioning and inhabiting former factory cities, but for the time being they are useless except for housing the poor, badly. They have inferior building stock, vast and unrecyclable vacated plants, empty lots of poisoned soil, populations that have never recovered from the loss of security—if, indeed, they ever knew such a thing. Seemingly everyone who can do so has bolted to the suburbs, which lie all around, just beyond the highway belt. Oh, and there is also Atlantic City, in which a froth of imitation high life sits atop a heap of misery. The misery is real enough, but the casino fringe is less a place than a drug or a manic episode. It is a feeble knockoff of Vegas, which is itself a three-dimensional metaphor you can almost put your arm through. Atlantic City is tethered to New Jersey, but it really seems to drift five miles offshore.

The predominant look of New Jersey these days is pale if not pastel, ostensibly cheerful, ornamented with gratuitous knobs and fanlights, manufactured in such a way that clapboard is indistinguishable from fiberglass—the happy meeting of post-modernism and heritage-themed zoning codes. A couple of decades ago the latter asserted themselves in the state by coating

Luc Sante immigrated to New Jersey from Belgium as a child. His books include Low Life, The Factory of Facts (both Vintage) and Evidence (Noonday). He lives in Ulster County, New York.

Tom Wicker on Sidney Blumenthal

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